



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF THE STATE BUDGET
LANSING

MARY A. LANNOYE
DIRECTOR

December 1, 2006

MEMORANDUM

TO: Department Directors

FROM: Mary A. Lannoye
State Budget Director

A handwritten signature in dark ink, appearing to be "ML", written over the printed name and title.

SUBJECT: Biennial Report on the Evaluation of Internal Controls
Due Date: May 1, 2007

I am writing to remind you that the biennial report on the evaluation of internal controls, required by Section 485 of Act 431, P.A. 1984 (copy attached), is due by May 1, 2007.

The Act requires the head of each principal department to establish and maintain an internal accounting and administrative control system and to report biennially to the Governor; Auditor General; Senate and House of Representatives Appropriation Committees and Fiscal Agencies; and the State Budget Office on his or her evaluation of the internal control system. These provisions are an essential element of the State's efforts to ensure effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

To facilitate the reporting process, each department director is asked to name an Internal Control Officer (ICO), previously referred to as a designated senior official. The ICO is responsible for planning and conducting the department-wide evaluation of internal controls and issuing the biennial report. Because these responsibilities require a coordinated effort across organizational lines within your department, it is important that a senior executive, such as a deputy director or chief deputy director serve as the ICO. The attached listing identifies the ICOs currently on record with the State Budget Office. Please review the listing and make any appropriate changes to your ICO by e-mailing Doug Ringler, Director, Support Services Division, Office of Financial Management, at RinglerD1@michigan.gov.

December 1, 2006

The Administrative Guide, Section 1270.01 includes instructions for preparing and submitting the report. To assist your department in planning and completing this effort, various reference materials and tools are available on the OFM website (<http://www.michigan.gov/ofm>). These include a “general framework”, which describes the evaluation and reporting processes; OFM’s analysis of the biennial reports from the last reporting cycle, which identifies best practices, areas needing improvement, and an OFM action plan; and various tools that can be downloaded and used to plan and conduct internal control evaluations and prepare the report.

For the 2007 reporting cycle, OFM is collaborating with other departments to revise the guidance it provides, including narratives describing the elements of a sound internal control system; tools for identifying and evaluating critical activities and critical information technology applications; a tool to guide the Internal Auditor’s review of your department’s evaluation and reporting processes; and the certifications you receive from the ICO and Internal Auditor regarding the status of your department’s controls. Your ICO, Chief Financial Officer, and Internal Auditor will be given the opportunity to provide feedback on these tools and certifications as they are finalized.

I also want to take this opportunity to remind you that processes to ensure that you do not overspend your budget are an integral part of a sound internal control system. As part of the evaluation of internal controls, it is imperative that you determine that such processes have been established and are functioning as intended.

Thank you for your personal attention to ensuring that sufficient resources are devoted to addressing this important management responsibility. If you or your staff have any questions regarding this memo or need assistance with using the evaluation tools, please contact Doug Ringler, Director, Support Services Division, Office of Financial Management, telephone (517) 373-4010.

Attachments

cc: Internal Control Officers
Chief Financial Officers
Internal Auditors

THE MANAGEMENT AND BUDGET ACT (EXCERPT)
Act 431 of 1984

18.1485 Internal accounting and administrative control system; establishment and maintenance; elements; duties of head of principal department; reports.

Sec. 485. (1) The department head of each principal department shall establish and maintain an internal accounting and administrative control system within that principal department using the generally accepted accounting principles as developed by the accounting profession and in conformance with directives issued pursuant to section 141(d).

(2) Each internal accounting and administrative control system shall include, but not be limited to, all of the following elements:

(a) A plan of organization that provides separation of duties and responsibilities among employees.

(b) A plan that limits access to that principal department's resources to authorized personnel whose use is required within the scope of their assigned duties.

(c) A system of authorization and record-keeping procedures to control assets, liabilities, revenues, and expenditures.

(d) A system of practices to be followed in the performance of duties and functions in each principal department.

(e) Qualified personnel that maintain a level of competence.

(f) Internal control techniques that are effective and efficient.

(3) Each head of a principal department shall document the system, communicate system requirements to employees of that principal department, assure that the system is functioning as prescribed, and modify as appropriate for changes in condition of the system.

(4) The head of each principal department shall provide a biennial report on or before May 1 of each odd numbered year prepared by the principal department's internal auditor on the evaluation of the principal department's internal accounting and administrative control system to the governor, the auditor general, the senate and house appropriations committees, the fiscal agencies, and the director. For the period reviewed, the report shall include, but not be limited to, both of the following:

(a) A description of any material inadequacy or weakness discovered in connection with the evaluation of the department's internal accounting and administrative control system as of October 1 of the preceding year and the plans and a time schedule for correcting the internal accounting and administrative control system, described in detail.

(b) A listing of each audit or investigation performed by the internal auditor pursuant to sections 486(4) and 487.

History: Add. 1986, Act 272, Imd. Eff. Dec. 19, 1986;—Am. 1999, Act 8, Imd. Eff. Mar. 22, 1999.

Popular name: Act 431

Popular name: DMB

Updated 10/20/06

Department	Internal Control Officer
Agriculture	David Bruce
Attorney General	Joe Bengel
Civil Rights	Dan Bojalad
Civil Service	Carol Vargovich
Community Health	Jim Brandell
Corrections	Barry Wickman
Education	Carol Wolenberg
Environmental Quality	JoAnn Merrick/James Kasprzak
History, Arts, and Library	Mark Hoffman
Human Services	Laura Champagne
Information Technology	Karen Tarrant
Labor and Economic Growth	Allan Pohl
Management & Budget	Phyllis Mellon
Military & Veterans Affairs	Joel Wortley
Natural Resources	Joe Frick
Secretary of State	Brian Debano
State Police	Jerri McClure
Transportation	Myron Frierson
Treasury	Julie Croll